AR80

Canada Southern Petroleum Ltd.
Annual Report 1975

COVER: Over the next few years, the Canadian Arctic Islands, where Canada Southern holds interests in more than 8 million acres, are expected to become a major supply source for the delivery of hydrocarbons. The Polar Gas Project, formed in 1972, has concluded from extensive field research that a 3,200-mile Polar pipeline, initially tapping the large reserves of the Sabine Peninsula-area Hecla and Drake Point gas fields, not only is technically and environmentally feasible but offers the most economical and efficient means of delivering Arctic Islands gas to southern Canada where link-ups will be made with existing Canadian and United States transmission systems. The Project anticipates filing by 1977 for pipeline certification, with construction thereafter over one of several alternate routes expected to require three years. In addition, crude oil produced from Cameron Island's Bent Horn field reportedly will be shipped to market via icebreaking tankers in a year-round transport operation.

Cover map courtesy Polar Gas Project, Toronto, Ontario.

Map and chart, page 3, courtesy World Oil.

Chairman's Letter To the Shareholders:

The period since our last report has provided fresh evidence that the Canadian Arctic Islands have the potential of becoming one of the world's major energy provinces. Such promise holds special significance for Canada Southern which since 1966 has committed more than 8 million acres to petroleum exploration in the High Arctic under an agreement with Panarctic Oils Ltd., a consortium of the Canadian federal government and a number of investor-owned oil and mining companies.

The most recent event underscoring the hydrocarbon potential of the Arctic Islands was the announcement by Panarctic on December 4, 1975 that its Bent Horn F-72A extension well drilled on Canada Southern's 6.67 percent-owned Cameron Island block flowed for short periods on test at rates up to 30,000 barrels of oil per day. Panarctic further reported stabilized flow rates on a 47-hour test in the range of 5,000 barrels per day. While the entire oil-bearing section was not penetrated at this location, its thickness is estimated to be about 130 feet.

A stepout well to be drilled by Panarctic on Canada Southern-interest lands six miles west of the F-72A well should reach total depth in March 1976, and, if successful, will provide indication of the magnitude of the oil reserves in the Bent Horn field. Panarctic previously had estimated the length of the Bent Horn oil-bearing structure at from five to six miles and its width at more than a mile.

The significance of this latest Bent Horn oil strike, with indicated production flow rates unprecedented elsewhere in the High Arctic, confirms the belief expressed in this space a year ago, that "substantial oil reserves may yet be found in the (Canadian) Arctic Islands provided adequate exploration is carried out." Canada Southern, it should be noted, has been a consistent participant over recent years in Panarctic's intensive oil search. Company-interest properties have been the sites, in succession, of the first recovery of Arctic Islands oil in February 1972, the first Arctic Islands oil well capable of production in March 1974, and most recently, the Arctic Islands largest oil strike, on Cameron Island, in October 1975.

The F-72A extension well was drilled directionally to a subsurface target one mile south of last year's Panarctic Bent Horn N-72 discovery. The latter well was completed on Company-interest acreage in March 1974 as a 500-barrel-per-day potential oil producer. Four Cameron Island tests drilled on our interest acreage over the interim from the discovery well to the F-72A oil strike failed to find hydrocarbons and were abandoned.

Cameron Island is held almost entirely under Company-interest permit, the 300,030-acre block subject to Canada Southern's 6.67 percent working interest extending also to contiguous offshore acreage. The Devonian reef oil reservoir encountered in the drilling of the Bent Horn discovery and F-72A extension well is the first such prospect to prove oil productive in the Arctic Islands. Many others can be expected to be developed on the Paleozoic reefal trend extending from Banks Island in the west to Ellesmere Island in the east. It is understood a second reefal development similar to Bent Horn has been detected by seismic on Cameron Island and will be the target of future exploratory drilling.

Under consideration presently are tentative plans for shipping Cameron Island crude oil some 3,300 miles to eastern Canada via a year-round icebreaking tanker operation. Other plans under consideration for the island include construction of a small refinery to produce diesel fuel for High Arctic operations.

Complementing Canada Southern's ownership participation in Cameron Island's Bent Horn field, the Company has a considerable interest as well in Panarctic's aggressive effort to find and develop additional Arctic Islands gas reserves. Aggregate gas reserves already discovered by Panarctic are conservatively estimated to exceed 10 trillion cubic feet in six separate fields, of which the two largest are

Hecla and Drake Point on Melville Island's Sabine Peninsula, the remaining four fields being located on and around Ellef Ringnes Island, at Kristoffer Bay, King Christian and Thor islands. A common characteristic of all gas wells completed to date in this area is their exceptionally high deliverability, with absolute open flow capacities ranging from 96 to 410 million cubic feet per day.

Recently, Canada Southern exercised its rights under its agreement with Panarctic to convert to a fully-financed, carried interest ownership in seven blocks covering some 3.6 million acres offshore the Arctic Islands, including a three-quarter-million acre block off the west coast of the Sabine Peninsula, underlain in part by the Hecla gas field. The Company's ownership in these seven blocks is now a 30 percent carried interest whereas previously its participation consisted of a 40 to 50 percent working interest requiring Canada Southern to advance its share of all exploration and development costs.

In return for the Company's early exercise of its conversion rights, Panarctic, among other considerations, has agreed to the drilling in 1976 of a second Hecla stepout well on Canada Southern-interest acreage off the Sabine Peninsula. This well will test a possible seven-mile northwest extension of the Hecla gas field, the original offshore well drilled from an ice-island in 1974 having established an eight-mile seaward extension of the Hecla field. Panarctic recently announced plans for the drilling early next year of two offshore tests of the Hecla structure, both to be located on Canada Southern-interest property. In addition to the northwest extension well, Panarctic has reported it will test the deeper Bjorne sands near the center of the structure.

While the marketing of Arctic Islands gas lies some distance in the future, the Polar Gas Project, in a submission early this year to the Canadian National Energy Board, reported that present planning by that group, consisting of Panarctic and Canadian-United States investor-owned companies, favored a formal application by 1977 for pipeline certification, with construction to be carried forward during a three-year period following certification.

The submission asserted further that if a desirable level of threshold reserves is attained earlier than presently contemplated, project plans could be accelerated and the filing date advanced. The threshold reserves required range from 20 to 30 trillion cubic feet, depending upon choice of route, diameter and throughput of the pipeline. Panarctic, for its part, has declared it is making every effort to find and develop at an early date the reserves of both natural gas and crude oil required to enable marketing to commence.

During the period under review, Canada Southern participated in the drilling of three wells in the Haig area of northwestern Alberta, two of which wells tested gas and established the presence of commercial gas reserves. The Company and its partners now own some 67,000 adjoining acres in this sector in which Canada Southern's interests range from 10 to 25 percent. Additional drilling is planned during the 1975-76 drilling season.

I should like to acknowledge at this point my appreciation and that of the Board of Directors for the efforts of the staff over the past year, and for the continued interest and support of the Company's shareholders.

The following pages contain a detailed review of the Company's operations, as well as audited financial information for the fiscal year ended June 30, 1975.

On behalf of the Board of Directors,

John W. Buckley

Chairman of the Board

Calgary, Alberta
December 15, 1975

Review of Operations

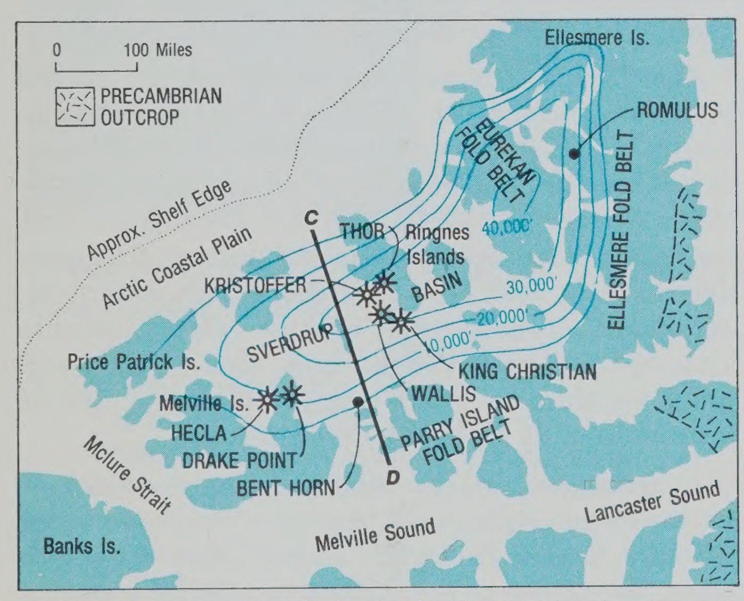
PETROLEUM

CANADA

Arctic Islands

The six wells drilled by Panarctic Oils Ltd. on Canada Southern-interest properties in the Canadian Arctic Islands during and since the past fiscal year ended June 30, 1975 presented a sequence of disappointments which culminated, however, in spectacular success.

Following the previous year's notable exploratory accomplishments, of which the Bent Horn oil discovery on Cameron Island marked the first recovery of live crude oil from Paleozoic rocks in the Arctic Islands and the successful drilling offshore the Sabine Peninsula confirmed a westerly eight-mile seaward extension of the Hecla gas field, the exploration program under review remained largely uneventful until mid-October 1975. At that time, the Panarctic Bent Horn F-72A well, drilled as a stepout to last year's Bent Horn discovery, flowed high-grade crude oil on an initial drillstem test of the top 10 feet of an oil-bearing Devonian reef section at the rate of 3,000 barrels per day. While not penetrated in its entirety, the total thickness of the pay section in this area is estimated to be 130 feet.



Details of Sverdrup basin in the Arctic Islands, showing discoveries and thickness in thousands of feet of Upper Paleozoic and Mesozoic sediments.

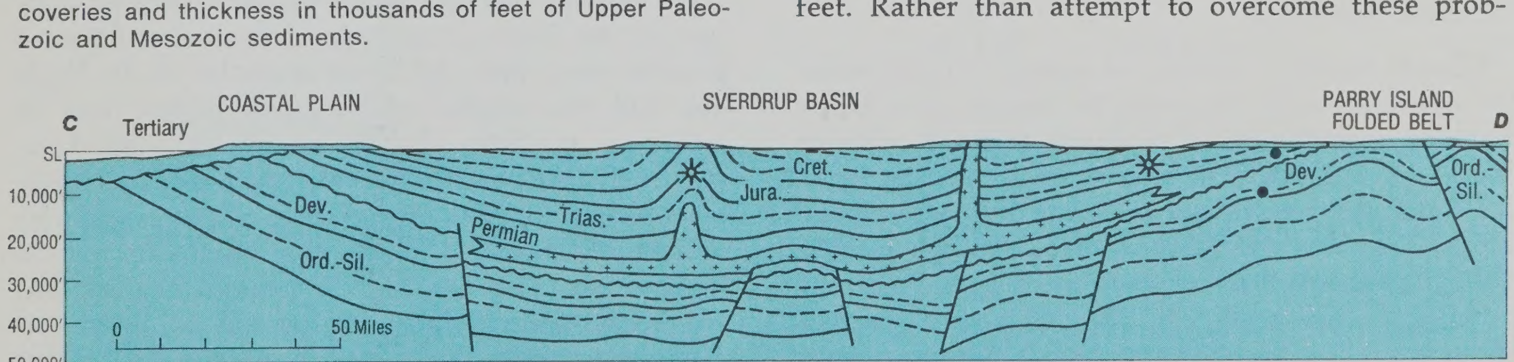
On subsequent preliminary production tests announced by Panarctic early in December, the F-72A well reportedly was flowed for short periods at rates up to 30,000 barrels per day. Later, over a 47-hour period, the well produced oil at an average 5,300 barrels of oil per day with 17 percent water. Panarctic's engineers are of the opinion that water free production can be achieved at lower, though commercially-acceptable flow rates.

Panarctic has reported that the structure has not yet been drilled at its highest point. A stepout test, to be located about six miles west of the F-72A well, is scheduled to be commenced in early January and will, if successful, give an indication of the magnitude of the reserves and commerciality of the Bent Horn field.

Each of the wells drilled on Cameron Island following the Bent Horn discovery in March 1974 added information helpful in elucidating the geologic setting of the island, most of which is held under Canada Southern's 6.67 percent working interest ownership as are large areas of contiguous offshore acreage. The Robert Harbor K-07 well on the island's northeast coast was followed by the Cape Fleetwood M-21 north-northeast of the N-72 discovery well. The Cape Fleetwood test, in turn, was succeeded by the Pym Point C-44 on the island's southwest coast. Although all failed to find the anticipated Devonian productive reef, they nevertheless proved a key to the subsequent drilling of the Bent Horn F-72A well.

This well, begun in May 1975 as the Bent Horn F-72 stepout, was drilled at a location one-half mile south of the Bent Horn N-72 discovery. From information gained in the drilling of the discovery, together with existing seismic data, Panarctic concluded that the discovery well, which was tested at the rate of 500 barrels of oil per day, was an "edge" well, on a Devonian reef structure. Further, that company concluded that favorable prospects for more prolific production could be found at locations south of the discovery well.

Subsequently, the Bent Horn F-72 stepout encountered serious drilling problems at the depth of 10,550 feet. Rather than attempt to overcome these prob-



Generalized cross-section across Sverdrup basin showing Devonian, Ordovician, Silurian, Permian, Triassic, Jurassic and Cretacious formations. See map above for location.

lems, Panarctic elected to plug the well back to 4,800 feet and directionally drilled to another target located approximately 1,800 feet to the southwest.

The deviated well, identified as F-72A, finally reached its objective last October 19, and the success which followed is viewed as holding significant implications for the future course of exploration in the High Arctic. Through the Bent Horn experience, Panarctic has acquired interpretative information that promises to spur future tests of reefal features similar to Bent Horn at numerous locations elsewhere in the Arctic Islands.

Although reserves of the Bent Horn field have been variously estimated in the range of "multiples of hundreds of millions" of barrels, more realistic estimates, as previously noted, must await the results of the early drilling of the scheduled six-mile stepout well. Panarctic has estimated that the Bent Horn reservoir covers an area which is about five to six miles in length and approximately one mile wide. Plans under consideration for production from this new oil field include the year-round transportation of crude by ice-breaking tankers to eastern Canada, as well as the construction of a small refinery on Cameron Island to produce diesel fuel for continued High Arctic operations.

Only one well was drilled during the report period on Company-interest lands other than Cameron Island. This was the Panarctic Mocklin Point D-23 test on the west-central coast of Ellef Ringnes Island, which was abandoned as a dry hole in July 1975.

By contrast, the world's second well drilled from an ice-island in 465 feet of water, the Panarctic East Drake I-55 well, confirmed an eight-mile seaward extension to the east of the prolific Drake Point gas field in the area of Melville Island's Sabine Peninsula. The importance to Canada Southern of this latest Drake Point success lies in the well's location nine miles southwest of a large 798,399-acre block offshore the east coast of the Sabine Peninsula, in which the Company now owns a 30 percent carried interest.

Panarctic Agreement

Canada Southern recently exercised its right under its agreement with Panarctic to convert to a fully-financed, carried interest ownership in seven offshore blocks in the High Arctic, covering an aggregate 3,650,607 gross acres and including the large blocks off both the east and west coasts of Melville Island's Sabine Peninsula. The westerly block is underlain in part by the Hecla gas field. The Company's carried interest in all seven blocks is now 30 percent, reflecting a change in participation from the previous 40 to 50 percent working interest under which Canada Southern was required to advance its share of all exploration and development costs or suffer percentage penalties pursuant to the contract's terms.

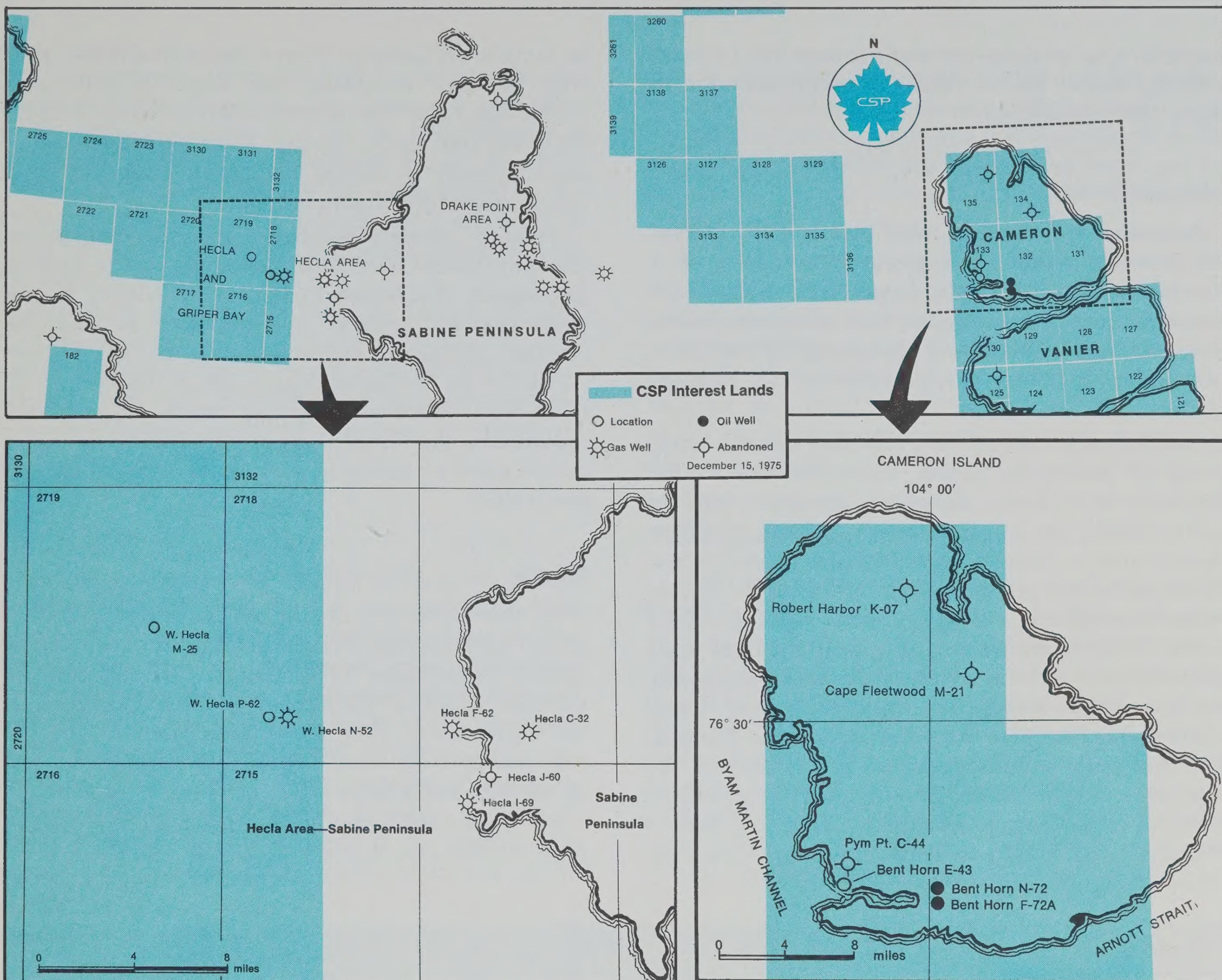
Onshore properties assigned by Canada Southern to Panarctic, consisting of some 4,203,905 gross acres, are divided into 19 blocks, each a separate economic unit. The Company retains a carried interest ranging from 5 to 15 percent in 16 of these blocks aggregating 3,419,030 acres and a working interest ranging from 6.67 to 20 percent in the remaining three blocks totaling 784,875 acres.

The Company also holds a small working interest in three additional blocks under a sub-farmout from Panarctic, covering portions of Emerald, Prince Patrick and Vanier islands, and a 100 percent working interest in three blocks totaling 74,134 acres.

Under the terms of the agreements covering the carried interests now in effect for both onshore and offshore properties, Panarctic has agreed to finance Canada Southern's share of exploration and development expenditures in exchange for Panarctic's recovering such costs from each block's production, block by block. After all funds advanced by Panarctic for exploration and development are recouped by that company from production on a block-by-block basis, Canada Southern will be entitled to receive its percentage share of the net proceeds of such production.

The Company retains the right under its carried interest ownership in the above 23 Arctic Islands blocks (i.e., 7 offshore and 16 onshore) to participate in all benefits otherwise accorded any working interest partner, including receiving information and the right to negotiate the sale and dedication of production from such blocks. Moreover, the underlying agreement covering the offshore blocks accords Canada Southern the right from time to time and block by block to revert from a 30 percent carried interest to a 30 percent working interest.

In return for Canada Southern's early exercise of its conversion rights with respect to the above seven offshore blocks, Panarctic, among other considerations, has agreed to the drilling in 1976 of a second Hecla stepout well on Canada Southern-interest acreage off the Sabine Peninsula. This well will test a possible seven-mile northwest extension of the Hecla gas field, the original offshore well drilled from an ice-island in 1974 already having established an eight-mile westward extension of the Hecla field. Flow-testing of this first Hecla offshore well indicated a calculated open flow capability of 52 million cubic feet per day. Although Panarctic had scheduled one additional Hecla well in 1976, that company recently announced plans for the drilling early next year of two offshore tests of the structure, both to be located on Canada Southern-interest



COMPANY-INTEREST PROPERTIES INCLUDED IN PANARCTIC AGREEMENTS
as of October 31, 1975

Islands	Gross Acres	Interest Retained by Company: % Interest	Interest Retained by Company: Net Acres
TriCeeTee Agreement			
Prince Patrick, Brock, Melville, Emerald, Vanier, Cameron, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg	480,767	6.667 (working)(1)	32,053
	2,919,094	5.000 (carried)(1)	145,955
CSP-Clark-Skelly			
Eight Bears	57,210	6.000 (carried)	3,433
CSP-B.P.			
Melville	62,650	13.125 (carried)	8,223
CSP			
Axel Heiberg, Ellesmere	304,108	20.000 (working)	60,822
	380,076	15.000 (carried)	57,011
CSP			
Offshore, Sverdrup Basin	3,650,607	30.000 (carried)(2)	1,095,182
	7,854,512		1,402,679

(1) Does not include the Company's additional interest to be acquired under the sub-farmout agreement covering permits on portions of Emerald, Prince Patrick and Vanier islands.

(2) Area divided into seven blocks. Interest in each block may be converted to a 30.0% working interest at CSP's option.

property. One of these test wells is expected to penetrate the deeper Bjorne sands heretofore untested in Hecla offshore drilling.

Polar Gas Project

According to Polar Gas, more than half the threshold reserves needed to support construction of a pipeline linking Arctic Islands gas fields with Canadian and United States markets have now been found, and accordingly, officials of that company are planning to file by 1977 a formal application for pipeline certification.

Established in 1972, the Polar Gas Project, comprised of companies having major interests in the development of Arctic Islands gas resources, initially contemplated the construction of a large diameter pipeline over a distance of 3,200 miles to deliver 4.5 billion cubic feet of gas daily from the Arctic Archipelago to markets in eastern Canada and the United States. Project officials recently have indicated consideration now is being given to alternative proposals involving two stages of construction and using smaller diameter pipe than that originally planned. The first stage would consist of 1,500 miles of 42-inch line and 915 miles of 36-inch line to deliver 2 billion cubic feet of gas per day from the Sabine Peninsula region only to either Emerson, Manitoba, or Longlac in Ontario, connecting with existing systems at these terminals. The second stage would extend the Polar Gas system south to Niagara Falls, Ontario, and north to the King Christian Island fields, thereby increasing the system's capacity to 4 billion cubic feet of gas daily.

Panarctic recently reported a contingency plan for transporting the over 10 trillion cubic feet of natural gas already discovered in the Arctic Islands in the event that no pipeline is constructed to southern markets in Canada and the United States. If there should be no further drilling in the Arctic Islands, or if no new discoveries should result from future exploration, the reserves already discovered would be moved south by tanker in the form of liquefied natural gas (LNG).

Alberta

In the aftermath of the shallow gas discovery drilled on Company-interest acreage in northwestern Alberta in February 1974, Canada Southern and its partners acquired substantial additional acreage in the surrounding Haig River area which, with the neighboring Keg River region, has emerged as one of the province's most active exploratory regions.

Of three subsequent wells drilled on the present large 67,360-acre spread, in which the Company's

Canada Southern Petroleum Ltd.

STATUS OF CARRIED INTEREST AGREEMENTS COVERING BRITISH COLUMBIA, YUKON AND NORTHWEST TERRITORIES as of June 30, 1975

(Expressed in Canadian dollars)

	Cumulative to June 30, 1973	
	Gross Expenditures	Production Proceeds
Pacific Agreement		
Ex. Permits 100-104	$17,561,452	$10,102,502
Phillips Agreement		
Ex. P. 149 (Block C)	5,470,846	273,789
Ex. P. 178 (Block F)	2,151,446	3,377,036
Ex. P. 224 (Block G)	5,092,772	9,943,756
Dome Pan-American Agreement		
Ex. Ps. 1007, 1132, 1133	258,930	
Ex. Ps. 1136, 2713, 1137, 2301, 1153	468,953	
Ex. Ps. 1149, 1156, 1178, 1181	1,100,765	

*Block F net proceeds from production became payable to the Company in July 1970, and by June 30, 1975 the Company's share amounted to $491,227 including $111,092 in fiscal 1974 and $53,583 in fiscal 1975.

working interests range from 10 to 25 percent, two were completed as shallow gas discoveries (see map, p. 8). Industry reports indicate the Haig River-Keg River area will be actively explored during the 1975-1976 drilling season. Drilling plans formulated by the Company and its partners indicate that a minimum of three wells will be drilled on interest acreage within the next six months.

Elsewhere, in the Alix area of central Alberta, Canada Southern, as a result of a pooling arrangement, will be entitled to earn a small royalty income when a gas well completed on acreage adjoining Company-interest lands in the area is placed on production.

British Columbia

To date, no plans for further drilling on Canada Southern-interest lands in the province have been disclosed by the companies operating these properties. Nevertheless, resumption of active exploration in British Columbia after a two-year hiatus is viewed as highly probable in the aftermath of the provincial election of mid-December 1975, which saw the conservative Social Credit Party victorious, based on campaign promises to "return investor confidence" to the province. Some time prior to the election, the previous administration had approved an increase in oil and gas prices, with built-in incentives for exploration to be paid to the producing companies. Reflecting the changed economic and political climate in the province, it is possible that at least two wells may be drilled on Company-interest properties during the coming winter months.

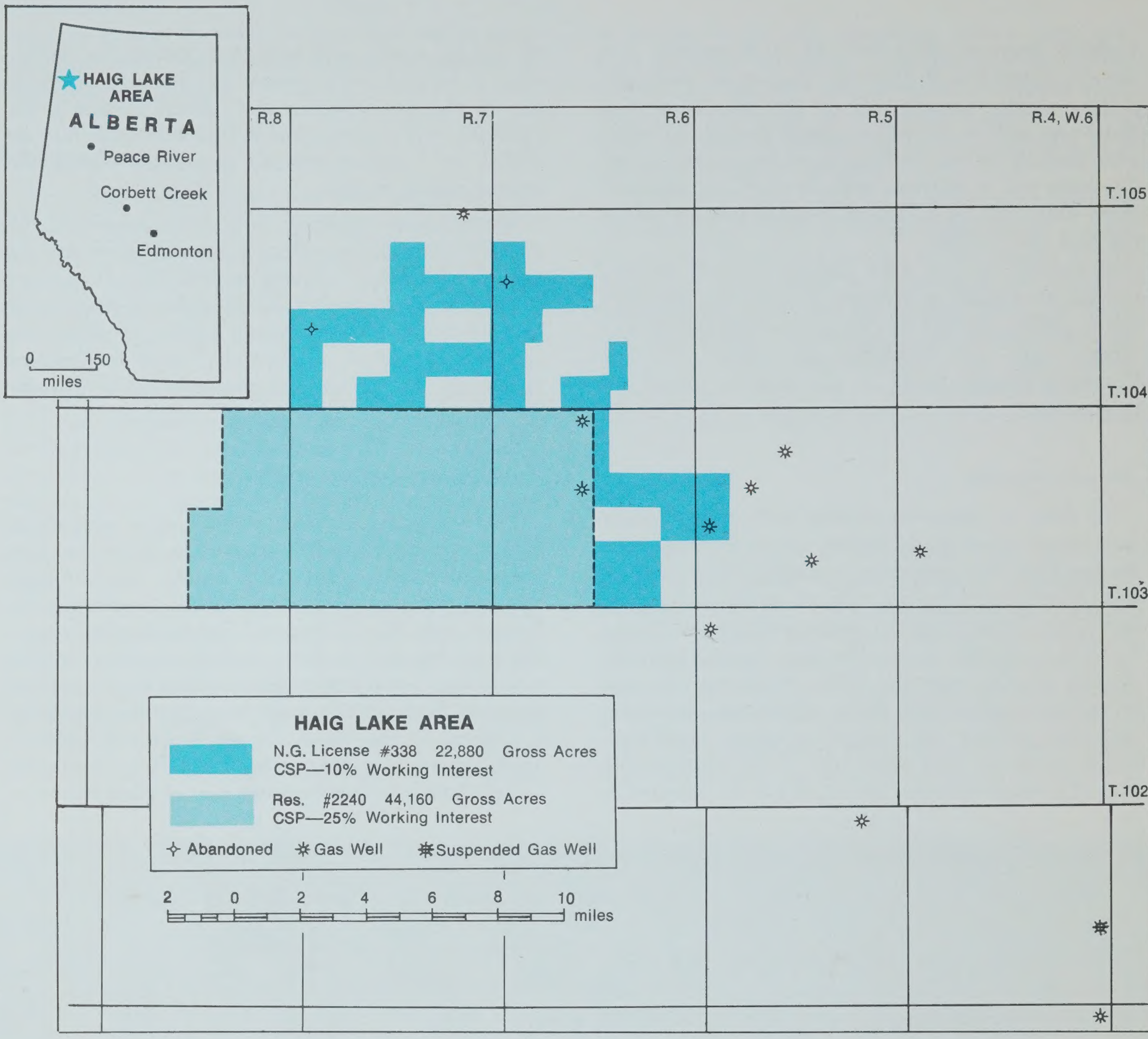
Mention was made in last year's report of the possibility of commencing gas production from a well in which the Company now holds a 10 percent gross overriding royalty. Considerable re-working of the well became necessary and further work may be required to sustain productivity since the present producing zone is not the one regarded as offering the best potential.

Yukon and Northwest Territories

There was no significant activity on or adjacent to Company-interest lands in these areas during the past year, a condition attributable to the Government's delay in releasing its new oil and gas regulations for Federal lands. Should the new regulations reflect recognition of the risks and expenses involved in frontier exploration, some acceleration in exploration would be expected. Such activity could be particularly beneficial if directed to the North Beaver River and Celibeta areas where gas discoveries have been made on Canada Southern-interest lands near existing pipelines.

Year Ended June 30				Cumulative to June 30, 1975			Company Interest	
1974		1975						
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	%	Cost to Convert to a Working Interest
$115,365	$1,712,147	$129,024	$1,565,568	$17,805,841	$13,380,217	$ 4,425,624	21.25	$ 940,445
10,884		41,234	(903)	5,522,964	272,886	5,250,078	50.00	2,625,039
112,455	483,655	71,528	313,307	2,335,429	4,173,998	(1,838,569)	27.75	*
84,804	1,047,029	93,220	942,900	5,270,796	11,933,685	(6,662,889)	27.75	**
35,261		48,077		342,268		342,268	45.0	154,021
37,473		26,291		532,717		532,717	45.0	239,723
14,555		6,726		1,122,046		1,122,046	45.0	504,921

**Block G net proceeds from production became payable to the Company in December 1968, and by June 30, 1975 the Company's share amounted to $1,796,554, including $275,381 in fiscal 1974 and $218,160 in fiscal 1975.



IRELAND

The Company until recently owned a 20 percent interest in the Oakwood Group, which held a non-exclusive petroleum prospecting license granted by the Republic of Ireland covering exploration in the Celtic Sea off that country's southeast coast. This group, of which Oakwood Petroleums (U.K.) Ltd. was the operator, conducted geological and geophysical studies in the Celtic Sea with the intention of filing possible permit applications. Permit terms announced in mid-1975 by the Irish Government, however, were not considered attractive in view of the difficult locale of operation of the proffered offshore areas. As a result, neither Canada Southern nor the Group elected to apply for exclusive permits in the area.

NAMIBIA

As previously reported, the Company, through a three-member consortium with Alminex Limited and Asamera Oil Corp. Ltd., owns a 15 percent working interest in a prospecting license covering the 5.2 million acres of Block 9 off the coast of Namibia (formerly South West Africa). Some 340 miles of multicoverage seismic data were acquired by the group on this block. Further exploratory work will be based on evaluation of these data and may be influenced additionally by other drilling activity in the general area of the prospecting license. Extension of the prospecting license beyond December 31, 1975 is the subject of negotiation with the appropriate government authorities and the license may be allowed to lapse if the work commitments are not ameliorated.

ITALY

As reported last year, the Company acquired a 7.5 percent participating interest early in 1974 in two northern Italian exploration permits to the east of Milan and north of Venice. The first well drilled on these properties was completed as a shut-in gas well after testing 6 million cubic feet of gas per day through a restricted choke. However, two succeeding stepout wells drilled less than one mile from the discovery failed to find the Miocene gas-bearing sand encountered in the first well. Accordingly, the Company elected recently to withdraw from further participation in exploration in this area, and presently is negotiating the sale of its interest.

MINERALS

CANADA

The Company holds both a 20 percent direct interest in an iron ore prospect on the Melville Peninsula of the Franklin District in the Northwest Territories and an indirect 3.81 percent interest through its shareholding in Borealis Exploration Limited. Borealis currently holds 233 mining claims, reduced from 481 held in the previous year, which cover approximately 11,650 acres on the Melville Peninsula and fully protect the iron ore body. During the month of August 1975, a field survey was completed which should qualify the remaining 233 mining claims for conversion to lease.

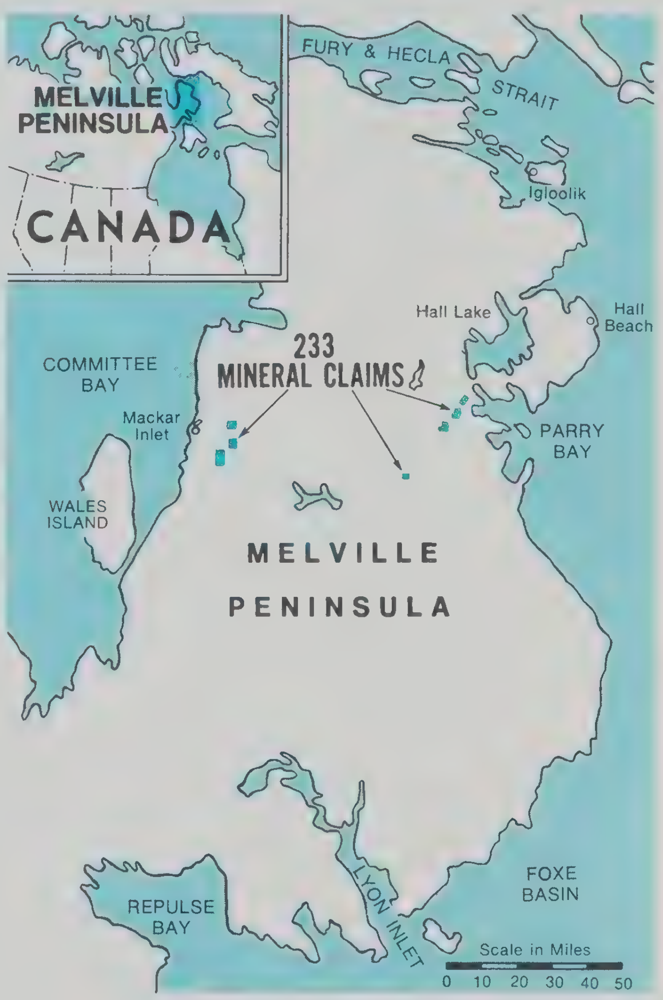
UNITED STATES

Through its wholly-owned subsidiary, Canpet, Inc., the Company holds a 17.5 percent working interest in a uranium exploration venture covering 4,788 net acres in Nevada. Canpet's partners in the project include AGIP Mining Company, Inc., a wholly-owned subsidiary of AGIP, Italy, and a subsidiary of United Canso Oil & Gas Ltd. No prospects of commercial significance have been uncovered to date, and no further work is planned. In Colorado, where the Company owns a 50 percent working interest in 7,150 acres, approximately 7,000 feet of drilling was conducted, without encouraging results, under an option farmout arrangement at no extra cost to the Company.

OTHER INTERESTS

FORACO N.V. AND FORACO N.H.

Canada Southern, through its 12.75 and 7.5 percent stock interests, respectively, in Foraco N.V. and Foraco N.H., which hold rights to the innovative Foradrill V.P.R. drilling unit, participated during the year in contracts involving use of six of the units in construction of the Alyeska pipeline in Alaska and one unit in exploratory operations in Western Australia. The unique French-developed unit has attracted widespread industry attention on three continents because of the flexibility afforded the operator to utilize vibration, percussion and rotation, either separately or in combination, depending upon subsurface conditions and drilling objectives.



MELVILLE PENINSULA
NORTHWEST TERRITORIES
CANADA SOUTHERN PETROLEUM LTD. INTEREST PROPERTIES OCTOBER 1975

Canada Southern Petroleum Ltd.
(A Canadian corporation)

CONSOLIDATED BALANCE SHEET
(Expressed in Canadian dollars)
June 30, 1975 and 1974

ASSETS	1975	1974*
Current assets:		
Cash	$ 59,303	$ 46,696
Bank deposit receipts	505,000	1,260,000
Accounts receivable	74,411	105,744
Accrued interest	1,468	14,076
Refundable deposits and prepaid expenses	3,635	3,448
Total current assets	643,817	1,429,964
Investments and advances:		
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978	225,000	225,000
Investment in common stock	84,000	84,000
Foraco projects, at cost	140,878	143,611
Other	5,575	5,575
Oil and gas properties, at cost, less accumulated depletion of $767,507 and $638,997 at June 30, 1975 and 1974, respectively	7,582,493	7,091,155
Mineral properties, at cost	463,530	461,271
Land, building and equipment, at cost less accumulated depreciation of $296,863 and $283,828, respectively	57,849	70,819
	$ 9,203,142	$ 9,511,395

LIABILITIES AND CAPITAL	1975	1974*
Current liabilities:		
Accounts payable and accrued liabilities:		
The Catawba Corporation	$ 51,521	$ 22,002
Other	118,691	101,825
Notes payable	8,312	8,312
Total current liabilities	178,524	132,139
Notes payable, less current portion included above	24,937	33,249
Commitments and contingent liabilities (Note 3)		
Capital:		
Capital stock, par value $1 per share:		
Authorized—15,000,000 shares		
Outstanding—8,764,965 shares	8,764,965	8,764,965
Capital in excess of par value	14,469,356	14,495,772
	23,234,321	23,260,737
Accumulated deficit	(14,234,640)	(13,914,730)
	8,999,681	9,346,007
	$ 9,203,142	$ 9,511,395

*Restated (Note 1).

On behalf of the Board:
s/s John W. Buckley, *Director*
s/s Benjamin W. Heath, *Director*

The accompanying notes are an integral part of this statement.

Canada Southern Petroleum Ltd.
(A Canadian corporation)

CONSOLIDATED STATEMENT OF LOSS (Note 1)
(Expressed in Canadian dollars)

	Year ended June 30,				
	1971	1972	1973	1974	1975
Revenues:					
Proceeds under carried interest agreement	$ 328,477	$ 357,303	$ 388,252	$ 386,473	$ 271,743
Interest	317,694	246,181	203,533	158,861	73,666
Oil and gas sales	12,029	18,453	36,687	78,536	85,121
Rent	39,300	36,623	35,400	35,400	37,350
Other	5,507	13,020	12,097	200	(1,363)
	703,007	671,580	675,969	659,470	466,517
Costs and expenses:					
General and administrative:					
Financial, technical and other services under contract	179,986	206,405	222,353	264,954	227,004
Salaries and employee benefits	59,670	70,198	70,007	73,578	76,871
Shareholders' reports and capital stock expenses	110,067	120,534	105,000	112,855	68,727
Legal services	69,697	55,429	52,225	63,943	56,407
Building maintenance and rent	53,042	47,112	59,439	56,338	63,230
Auditing services	18,164	18,175	13,616	14,183	18,853
Travel and entertainment	7,948	11,829	10,208	10,026	5,703
Communications	5,893	7,270	6,916	7,315	2,656
Interest and exchange	5,957	4,142	3,119	869	5,231
Public relations	10,675	17,171	11,302	9,345	7,606
Miscellaneous	43,178	29,315	46,974	46,615	63,169
Abandonments	280,385	543,946	685,771	467,996	30,156
Depreciation, depletion and amortization	177,200	182,558	173,699	141,187	141,545
Lease operating costs	5,625	7,467	15,013	24,934	18,892
Write-offs:					
Canada Southern Petroleum (N.Z.) Limited	—	—	—	76,867	188
PXP Steam Power Units Ltd.	—	—	—	53,731	189
	1,027,487	1,321,551	1,475,642	1,424,736	786,427
Net loss	$ (324,480)	$ (649,971)	$ (799,673)	$ (765,266)	$ (319,910)
Average number of shares outstanding	8,553,688	8,588,785	8,678,261	8,764,812	8,764,965
Net loss per share based on average number of shares outstanding during the period	$(.04)	$(.08)	$(.09)	$(.09)	$(.04)

The accompanying notes are an integral part of this statement.

Canada Southern Petroleum Ltd.
(A Canadian corporation)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (Note 1)

(Expressed in Canadian dollars)

	Year ended June 30,				
	1971	1972	1973	1974	1975
Disposition of working capital:					
Net loss	$ 324,480	$ 649,971	$799,673	$ 765,266	$ 319,910
Charges (credits) to revenues not involving outlay of working capital in current period:					
Depreciation, depletion and amortization	177,200	182,558	173,699	141,187	141,545
Write-off of investments	—	—	—	130,598	377
Abandonments	280,385	543,946	685,771	467,996	30,156
Amortization of deferred income	(23,100)	(21,825)	(13,500)	—	—
Working capital used in (provided by) operations	(110,005)	(54,708)	(46,297)	25,485	147,832
Additions to oil, gas and mineral properties	843,944	1,163,885	592,011	1,216,030	662,640
Investments in Foraco projects, net	—	—	20,441	89,921	5,579
Investments in and advances to Canada Southern Petroleum (N.Z.) Limited	31,546	17,504	22,247	5,211	—
Investments in and advances to PXP Steam Power Units Ltd.	—	31,052	19,289	3,390	—
Expenses of capital stock offering	27,399	19,331	16,486	13,340	26,416
Decrease in 7% mortgage loan (non-current)	20,432	22,347	15,753	—	—
Net additions to building and equipment	701	1,397	6,538	—	65
Other	3,063	2,802	7,480	3,964	—
	817,080	1,203,610	653,948	1,357,341	842,532
Source of working capital:					
Exercise of stock purchase warrants	15,105	8,552	52,049	2,168	—
Exercise of stock options	—	14,450	567,616	—	—
Tax refund relating to Act Oils Limited	14,883	—	—	—	—
Proceeds under carried interest agreement credited to oil and gas properties	47,324	—	—	—	—
Proceeds from sales of equipment or properties	18,148	—	—	—	10,000
	95,460	23,002	619,665	2,168	10,000
Decrease in working capital	$(721,620)	$(1,180,608)	$(34,283)	$(1,355,173)	$(832,532)
Change in working capital consists of increase (decrease) in:					
Cash	$ (51,580)	$ 8,719	$ (7,184)	$ (643)	$ 12,607
Bank deposit receipts	(880,000)	(1,170,000)	(15,000)	(1,375,000)	(755,000)
Accounts receivable and accrued interest	2,013	(45,125)	(39,597)	43,879	(43,941)
Refundable deposits and prepaid expenses	(2,898)	(28,450)	(965)	(574)	187
Accounts payable and accrued liabilities	212,143	55,614	21,652	(30,276)	(46,385)
Current portion of mortgage loan	(1,298)	(1,366)	6,811	15,753	—
Current portion of notes payable	—	—	—	(8,312)	—
Decrease in working capital	$(721,620)	$(1,180,608)	$(34,283)	$(1,355,173)	$(832,532)

The accompanying notes are an integral part of this statement.

Canada Southern Petroleum Ltd.
(A Canadian corporation)
(Expressed in Canadian dollars)

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE

Years ended June 30, 1974 and 1975

	Number of shares	Capital stock, $1 par value	Capital in excess of par value	Total
Balance at June 30, 1973	8,764,588	$8,764,588	$14,507,321	$23,271,909
Exercise of stock purchase warrants	377	377	1,791	2,168
Expenses of capital stock offering	—	—	(13,340)	(13,340)
Balance at June 30, 1974	8,764,965	8,764,965	14,495,772	23,260,737
Expense of capital stock offering	—	—	(26,416)	(26,416)
Balance at June 30, 1975	8,764,965	$8,764,965	$14,469,356	$23,234,321

CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIT

Years ended June 30, 1975 and 1974

	1975	1974
Balance at beginning of year, as previously reported	$(10,828,724)	$ (9,617,157)
Add adjustments for the cumulative effect on prior years of the changes described in Note 1	(3,086,006)	(3,532,307)
Balance at beginning of year, as adjusted	(13,914,730)	(13,149,464)
Net loss	(319,910)	(765,266)
Balance at end of year	$(14,234,640)	$(13,914,730)

The accompanying notes are an integral part of these statements.

Canada Southern Petroleum Ltd.
(A Canadian corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 1975

1. Summary of significant accounting policies

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils), Rampart Petroleums Ltd., Trans-Border Holdings Limited and Canpet, Inc., hereafter referred to collectively as the Company.

Most of the properties in which the Company has interests are in an exploratory or development stage and, accordingly, until June 30, 1974 all expenditures (less revenues) by the Company since its reorganization in 1954, and certain costs of its predecessor, were capitalized or deferred, except that costs and expenses applicable or considered allocable to areas abandoned and other losses (net of profits on sales of certain interests and the excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition) were charged to accumulated deficit.

Effective July 1, 1974, the Company began reporting as an operating company due to the significant revenues being generated from certain carried interests. In accordance with the Statement of Financial Accounting Standards No. 7, the financial statements for fiscal years prior to the year ended June 30, 1975 have been restated. Previously deferred general and administrative expenses and losses on abandonments or sales of interests charged directly to accumulated deficit as well as depletion on the properties are included in the consolidated statement of loss as though the Company were an operating company during the entire period. The portion of the deferred expenses ($2,589,807) applicable to periods prior to the year ended June 30, 1971 has been charged to accumulated deficit at the beginning of that fiscal year.

The Company follows the full cost method of accounting for oil and gas properties, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Depletion on costs accumulated in the Canada cost center is provided on the unit-of-production method based on estimated recoverable proven reserves. Expenditures incurred in the Arctic Islands and in foreign areas are being deferred pending the results of exploration in progress in those areas. These costs will be depleted by cost center on the basis of reserves discovered in each area or written off to income if exploration activities in that area prove unsuccessful.

Properties abandoned prior to July 1, 1974 are not capitalized, as the resulting total cost of the properties would exceed their current estimated value. The effect of the change in accounting for abandoned properties in fiscal 1975 was to decrease the net loss by $251,947 or $.03 per share.

The Company accounts for the costs of its mineral properties in the following manner. Acquisition costs, exploration and development expenditures and related administrative overhead are capitalized until such time as it is determined whether commercially exploitable reserves exist. Costs associated with properties which are determined to be unsuccessful or abandoned are charged to income. Costs associated with commercially exploitable prospects will be amortized or depreciated on a unit-of-production basis.

Realization of the amounts represented by investments and advances and oil and gas and mineral properties aggregating $8,501,476 at June 30, 1975, is dependent upon future developments, since most of the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped. The portion of these amounts applicable to properties, by cost center, is as follows:

Oil and gas properties:	
Canada (excluding the Arctic Islands)	$4,644,824
Arctic Islands	2,325,038
Foreign areas	612,631
	7,582,493
Mineral properties	463,530
	$8,046,023

Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells are computed by the unit-of-production method.

Transactions for settlement in U.S. dollars have been converted at average monthly rates. During the five years ended June 30, 1975, exchange gains and losses have not been significant.

As stated above, until June 30, 1974, the Company capitalized or deferred all expenditures (less revenues) including applicable general and administrative

expenses. However, for Canadian income tax purposes, the Company may claim exploration, development and lease acquisition costs in the year incurred, and capital cost allowances (depreciation) in amounts which may exceed those provided in the accounts. The Company had no Canadian income tax liability for the five years ended June 30, 1975, and at June 30, 1975 the following accumulated expenditures remained to be carried forward indefinitely to reduce future taxable income:

Drilling, exploration and lease acquisition costs	$13,700,000
Undepreciated capital costs	$ 615,000

2. Investments and advances

Borealis Exploration Limited (Borealis), in consideration of Canada Southern's agreeing to forego interest for the period ending March 31, 1973 on the 8% unsecured debentures of $225,000 and agreeing to assist in maintaining Borealis' books and records at Canada Southern's expense for the period ending March 31, 1972, issued to Canada Southern 90,000 fully-paid and nonassessable shares of its common stock. These shares, valued at $84,000 based on the above-mentioned considerations, represented 3.81% of the outstanding common shares of the Company at June 30, 1975 and 1974. Interest due after March 31, 1973 ($40,500 at June 30, 1975 and $22,500 at June 30, 1974) on the 8% unsecured debentures will not be recorded by Canada Southern until its collection is certain.

Canada Southern's equity in net assets of Borealis was approximately $23,387 at June 30, 1975 and 1974. Borealis is engaged in mineral exploration in northern Canada, and its net assets consist primarily of deferred exploratory and administrative costs.

During the year ended June 30, 1974, the Company acquired a 12.75% interest in the United States and Canadian patent rights and a 7.5% interest in the Australian patent rights to a drilling unit. The United States and Canadian rights are held by Foraco N.V., a Netherlands Antilles corporation, and the Australian rights are held by Foraco N.H., a New Hebrides corporation. In addition, a 25% interest in one of the drilling units was acquired during the year ended June 30, 1974. The Company was indebted to Forage Rationnel Construction S.A., a French company, for $33,249 and $41,561 at June 30, 1975 and June 30, 1974, respectively, in connection with the acquisition of this unit. In 1975, the Company's interest in the unit was exchanged for 25% of the shares of Foradrill Australia Pty. Ltd., a newly organized Australian company. All costs relating to these investments are being deferred.

Canada Southern Petroleum (N.Z.) Ltd. held concessions offshore New Zealand's North and South Islands. During the year ended June 30, 1974, the concessions were relinquished and Canada Southern Petroleum (N.Z.) Ltd. was liquidated.

Canada Southern and United Canso Oil and Gas Ltd. each own 50 per cent of the capital stock of PXP Steam Power Units Ltd. which holds the Canadian rights to a steam power unit being developed by Pritchard Steam Power Pty. Ltd. of Melbourne, Australia. Canada Southern wrote off its investment in PXP Steam Power Units Ltd. at June 30, 1974.

3. Properties and related exploratory and other expenses

The Company's properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands and Alberta in Canada and in Australia, Italy, Namibia (South West Africa) and the United States.

At June 30, 1975 much of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1975 and 1974, the accumulated expenditures by the operators attributable to all of the Company's carried interests exceeded the amounts recouped from production by $4,464,149 and $5,211,325, respectively. Two blocks, in which the Company's interest is 27.75%, have reached payout status. The Company's share of profits from these blocks was $271,743 and $386,473 for the years ended June 30, 1975 and 1974, respectively, which amounts have been credited to income.

The Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965, amounted to $1,119,443 at June 30, 1975. The Company has a 45% interest in this well. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

Most of the Company's interests in the Arctic Islands are subject to agreements with Panarctic Oils Ltd. The latter company has earned interests of 80% in a significant portion of the properties and may earn a 50% interest in seven additional blocks by carrying out a specified exploratory program.

Lease rentals, work requirements and deposits in connection with the properties and property interests

held by the Company at June 30, 1975 approximate $400,000 for the year ending June 30, 1976.

Properties abandoned during the year ended June 30, 1975 consisted of six permits in the eastern Arctic and five leases in British Columbia. Abandonments in the fiscal years ended June 30, 1972, 1973 and 1974 consisted of approximately sixty, seventy-five and thirty scattered leases, respectively, principally in British Columbia.

4. The Catawba Corporation

The amounts shown in the consolidated statement of loss for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1978) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to Borealis Exploration Limited and United Canso Oil & Gas Ltd. (See Note 6). Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of Canada Southern and of the other companies mentioned above.

Charges by Catawba to other companies in which the Company had equity interests, expressed in U.S. dollars, were as follows:

	Foraco N.V.	Borealis Exploration Limited	PXP Steam Power Units Ltd.
Year ended June 30, 1974..	None	$8,106	$3,790
Year ended June 30, 1975..	$13,113	None	None

5. Stock purchase warrants and stock options and reservations

During the year ended June 30, 1974, stock purchase warrants for the purchase of 601,934 shares of Canada Southern's capital stock at a price of $5.75 per share expired without exercise. During the year ended June 30, 1974, warrants to purchase 377 shares were exercised with proceeds to the Company of $2,168.

On September 21, 1973, the Board of Directors adopted an incentive stock option plan on 300,000 shares of Canada Southern's capital stock. Under this plan, through June 30, 1975, options to purchase shares had been granted to Catawba for 150,000 shares and to officers and employees for 57,000 shares.

At June 30, 1975, all of the options on 210,000 shares were exercisable (see chart below). In addition, there were 172,000 shares reserved for future option grants at June 30, 1975 and 1974. There were no other changes in stock options during the two years ended June 30, 1975 except that on June 24, 1974, an option granted to Canadian counsel under a previous stock option plan to purchase 10,000 shares at $8.00 (U.S.) per share expired without exercise.

The letters patent, as supplemented, of Canada Southern Petroleum Ltd. provide that no person (as defined) shall vote more than 1,000 shares.

6. Compensation and allocated expenses

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Benefits payable on retirement to employees are guaranteed by annuities purchased by the insurance company. Contributions by the Company to the pension plan on behalf of all employees were $13,015 and $14,653 for the years ended June 30, 1975 and 1974, respectively.

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to $94,310 and $94,686 for the years ended June 30, 1975 and 1974, respectively. Of these amounts, $37,587 and $37,523 were on behalf of directors and $56,723 and $57,163 were on behalf of officers. At June 30, 1975, there were five directors and five officers, of which one was also a director.

Stock options outstanding at June 30, 1975:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share)	Market price (per share) at date of grant
Officer	June 9, 1971	June 8, 1976	3,000	$4.75(U.S.)	$4.75(U.S.)
The Catawba Corporation ..	Nov. 20, 1973	Nov. 20, 1978	150,000	5.20	5.20
Officers	Nov. 20, 1973	Nov. 20, 1978	40,000	5.20	5.20
Employees	Nov. 20, 1973	Nov. 20, 1978	17,000	5.20	5.20
			210,000		

7. Subsequent events

In November 1975, the Company completed renegotiation of an agreement with Panarctic Oils Ltd. whereby the 50% working interest in seven blocks mentioned in Note 3 was converted to a 30% carried interest, retroactive to January 1, 1975.

On December 15, 1975, the Company sold land and an office building for $400,000. The gain on the sale of $349,404 was credited to income as of the date of sale.

Report of Independent Public Accountants

The Board of Directors

CANADA SOUTHERN PETROLEUM LTD.

We have examined the consolidated balance sheet of Canada Southern Petroleum Ltd. at June 30, 1975 and 1974 and the related consolidated statements of loss and changes in financial position for the five years ended June 30, 1975 and of capital stock and capital in excess of par value and accumulated deficit for the two years ended June 30, 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 1, the realization of investments and advances and oil and gas and mineral properties aggregating $8,501,476 and $8,010,612 at June 30, 1975 and 1974 respectively, is dependent on future developments, since the properties represented by these assets are substantially unexplored and undeveloped.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1975 and 1974, the consolidated results of operations and the consolidated changes in financial position for the five years ended June 30, 1975 and the consolidated changes in capital stock and capital in excess of par value and accumulated deficit for the two years ended June 30, 1975 in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement of the financial statements to give retroactive effect to the change to reporting as an operating company, except that properties abandoned subsequent to July 1, 1974 were not expensed. We concur with these changes which are further described in Note 1 to the financial statements.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

Hartford, Connecticut
September 25, 1975 (excepting as to Note 7
for which the date is December 15, 1975)

SUPPLEMENTARY AND MARKET INFORMATION

CANADA SOUTHERN PETROLEUM LTD., incorporated in 1954 under the Canada Corporations Act, is engaged in the exploration and development of properties in the Arctic Islands, Alberta, British Columbia, the Yukon and Northwest Territories in Canada, Nevada and Colorado in the United States, the Northern Territory of Australia and lands offshore Namibia (South West Africa) containing or believed to contain recoverable hydrocarbon reserves and mineral deposits.

At present, the properties in which the Company has interests are principally undeveloped, the majority of such properties and property interests being located in Canada. The Company has not paid dividends on its capital stock as its present policy is to apply all revenues received to the development of its properties and the acquisition of new properties.

The Company's shares of capital stock are currently listed under the ticker-symbol "CSW" on the Pacific and Boston stock exchanges in the United States and the Toronto and Montreal stock exchanges in Canada.

The total sales volume on The Pacific Stock Exchange for the years 1973 and 1974 amounted to 841,660 and 480,700 shares, respectively, with a quarterly price range for such shares as follows (prices expressed in U.S. dollars):

1973

	1st quarter	2nd quarter	3rd quarter	4th quarter
High	7⅞	5	5⅝	6¾
Low	4⅛	3½	3½	3¾

1974

	1st quarter	2nd quarter	3rd quarter	4th quarter
High	6¾	5⅝	3¼	2⅝
Low	4¾	2⅞	1⅜	1⅜

1975

	1st quarter	2nd quarter	3rd quarter	4th quarter*
High	2⅜	2⅜	2¾	3
Low	1⅝	1⅞	1¾	1⅝

* through Dec. 15

The total sales volume on The Toronto Stock Exchange for the years 1973 and 1974 amounted to 3,573,600 and 3,045,132 shares, respectively, with a quarterly price range for such shares as follows:

1973

	1st quarter	2nd quarter	3rd quarter	4th quarter
High	$7.85	$4.95	$5.70	$6.50
Low	$4.00	$3.65	$3.55	$3.80

1974

	1st quarter	2nd quarter	3rd quarter	4th quarter
High	$6.50	$5.40	$3.45	$2.65
Low	$4.80	$2.86	$1.42	$1.36

1975

	1st quarter	2nd quarter	3rd quarter	4th quarter*
High	$2.49	$2.45	$2.90	$3.20
Low	$1.60	$1.82	$1.85	$2.00

* through Dec. 15

MANAGEMENT'S DISCUSSION AND ANALYSIS

From its incorporation in 1954 through June 30, 1974, the Company prepared its financial statements as a development company and all expenditures (less revenues) were capitalized or deferred except that costs and expenses applicable or considered allocable to areas abandoned and other losses were charged to accumulated deficit. Most of the Company's properties are covered by carried interest agreements which provide that profits are not payable to the Company until expenditures by the operator have been recouped from production. The revenues from these agreements have become significant so that effective July 1, 1974, the Company began reporting as an operating company as described in Note 1 to the financial statements. Previously deferred exploratory, general and administrative expenses and losses on abandonments or sales of interests are included in the Consolidated Statement of Loss for the five years ended June 30, 1975 as though the Company were an operating company during the entire period.

Expenditures relating to the properties and general and administrative expenses exceeded revenues each year in the past and this is expected to continue until additional interest blocks pay out or other sources of revenue are found.

Proceeds from carried interests declined in fiscal 1975 due to the effect of royalty increases by the British Columbia Provincial Government. Interest income has declined each year for the last five years as marketable securities were liquidated to provide working capital. The amount expended in financial, technical and other services and for shareholders' expenses were higher in fiscal 1974 than in 1975 due principally to a special shareholders' meeting held to amend the by-laws. In 1974 interests in Canada Southern Petroleum (N.Z.) Limited and PXP Steam Power Units Ltd. were written-off.

Canada Southern Petroleum Ltd.

Executive Officers and Directors

John W. Buckley, *Chairman of the Board, President and Director*

President and a Director of United Canso Oil & Gas Ltd. and Pantepec International, Inc.; and a Director of Coastal Caribbean Oils & Minerals, Ltd., Magellan Petroleum Australia Limited and Pancoastal, Inc. He is also Chairman of the Board, Chief Executive Officer and a Director of The Catawba Corporation.

M. A. Ashton, *Vice President and Exploration Manager*

Associated with Canada Southern Petroleum Ltd. for more than 5 years, was appointed Vice President and Exploration Manager in 1972.

Arthur B. O'Donnell, *Vice President*

Vice President of Coastal Caribbean Oils & Minerals, Ltd., Magellan Petroleum Corporation, Pantepec International, Inc., Pancoastal, Inc., United Canso Oil & Gas Ltd. and The Catawba Corporation.

K. E. Noble, *Treasurer*

Associated with Canada Southern Petroleum Ltd. for more than 5 years, was appointed Treasurer in October 1975.

S. Vavra, *Secretary*

Associated with Atlantic Richfield Canada for more than 5 years before joining Canada Southern Petroleum Ltd. in 1972, appointed Secretary in 1973 and is in charge of the legal department of United Canso Oil & Gas Ltd.

K. Ross Jordan, *Assistant Secretary and Assistant Treasurer*

Secretary and Assistant Treasurer of Magellan Petroleum Corporation, Secretary of Pancoastal, Inc. and Pantepec International, Inc., Secretary and a Director of The Catawba Corporation.

Alan S. Anderson, *Director*

Director of Coastal Caribbean Oils & Minerals, Ltd., West Florida Natural Gas Company, Magellan Petroleum Corporation, and for many years prior to his retirement associated with the investment banking firm of Paine, Webber, Jackson & Curtis Incorporated.

Benjamin W. Heath, *Director*

President and a Director of Coastal Caribbean Oils & Minerals, Ltd. and Magellan Petroleum Corporation; Chairman and a Director of Magellan Petroleum Australia Limited, a Director of United Canso Oil & Gas Ltd. and a Director and President of The Catawba Corporation.

M. A. Reasoner, *Director*

Vice President and General Manager of Canada Southern Petroleum Ltd. from its formation through 1971, is presently Technical Advisor to the Chairman of the Board.

William Shields, Jr., *Director*

Director of Magellan Petroleum Corporation, Pantepec International, Inc., Pancoastal, Inc. and a member of, until June 30, 1970, and of Counsel to, until December 31, 1974, the law firm of Coudert Brothers.

Transfer Agents

The First Jersey National Bank
2 Montgomery Street
Jersey City, N.J. 07303, U.S.A.

Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada M5H 1B4

United California Bank
Box 3667 Terminal Annex
Los Angeles, Calif. 90051, U.S.A.

Auditors

Arthur Young, Clarkson, Gordon & Co.

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd. should be addressed to the Company in care of
The First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303, U.S.A.,
or to 505 Eighth Avenue South West, Calgary, Alberta, Canada T2P 1G2.

ACREAGE SUMMARY—OCTOBER 31, 1975

CANADA	Gross Acreage in Which Interest Is Held	Net Acreage Held Under Lease	Net Acreage Held Under Permit	Net Acreage Total
Petroleum				
British Columbia				
Pacific Agreement				
Working Interest	32,584	6,133		6,133
Carried Interest	61,971	13,170		13,170
Phillips Agreement—Carried Interest	164,630	18,750	3,751	22,501
Other				
Working Interest	31,812	1,839	5,427	7,266
Carried Interest	24,572	410		410
Total British Columbia	315,569	40,302	9,178	49,480
Alberta—Working Interest	67,360	2,368	11,040	13,408
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement—Carried Interest	134,238	60,409		60,409
Other	175,773	64,842		64,842
Total Liard Basin	310,011	125,251		125,251
Arctic Islands				
Panarctic Agreements—(see table, page 5)				
TriCeeTee	3,399,861		178,008	178,008
Other	4,454,651		1,224,671	1,224,671
Total Panarctic Agreements	7,854,512		1,402,679	1,402,679
CSP—100%	74,134		74,134	74,134
B.P. Sub-Farmout	143,202		28,608	28,608
Total Arctic Islands	8,071,848		1,505,421	1,505,421
Total	8,764,788	167,921	1,525,639	1,693,560
Minerals				
Northwest Territories(*)	41,773		6,365	6,365
Total Canada (Petroleum and Minerals)	8,806,561	167,921	1,532,004	1,699,925
AUSTRALIA (Petroleum)	76,800		3,840	3,840
NAMIBIA (Petroleum)	5,238,520	785,778		785,778
UNITED STATES (Nevada and Colorado) (Minerals)	14,650	4,788		4,788
GRAND TOTAL	14,136,531	958,487	1,535,844	2,494,331

(*) Includes interests held through the Company's 3.81% stock interest in Borealis Exploration Limited and the Company's 20% interest in the Melville Peninsula iron ore prospect acquired in October 1970.

New Ticker Symbol: CSW

The Company recently announced a change, effective October 20, 1975, in the ticker symbol for its issued and outstanding capital stock traded in Canada on The Montreal Stock Exchange and The Toronto Stock Exchange, and in the United States on The Boston Stock Exchange and The Pacific Stock Exchange.

The new ticker symbol is CSW.

The change was effected because the ticker symbol used for trading in Canada Southern shares on Canadian exchanges in former years differed from that in use on United States exchanges.

In a related move, a new trading symbol, CSPEF, also was adopted in the United States recently for trading in Canada Southern shares in the NASDAQ over-the-counter market.

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